

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
CLERK**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

The enclosed report prepared by Douglas R. Wise & Company, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of McCreary County, Kentucky, for the year ended December 31, 2004.

We engaged Berger and Company, CPA, PSC and a member of its consortium, Douglas R. Wise & Company, PSC, to perform the audit of this statement. We worked closely with the firms during our report review process; Berger and Company, CPA, PSC and its subcontractor, Douglas R. Wise & Company, PSC evaluated the McCreary County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure





The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

The enclosed report prepared by Douglas R. Wise & Company, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of McCreary County, Kentucky, for the year ended December 31, 2004.

Douglas R. Wise & Company, PSC was part of a consortium of firms submitted by Berger & Company CPA, PSC to perform financial audits under contract with the Auditor of Public Accounts. As the primary firm in the consortium, Berger & Company CPA, PSC worked closely with the firm during our report review process and we certify this report meets the terms and conditions of the contract. Douglas R. Wise & Company, PSC evaluated the McCreary County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script that reads "Berger & Company CPA PSC".

Berger & Company, CPA, PSC

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCCREARY COUNTY CLERK

**For The Year Ended
December 31, 2004**

Douglas R. Wise & Company, PSC has completed the McCreary County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$34,224 from the prior year, resulting in excess fees of \$9,062 as of December 31, 2004. Revenues increased by \$77,439 from the prior year and expenditures increased by \$111,663.

Report Comments:

- The Clerk Should Pay Deed Transfer Taxes Quarterly
- The Clerk Should Pay Occupational License Tax Quarterly
- Time Sheets Were Not Properly Kept For Employees Of The Clerk's Office
- The Clerk Should Deposit Personal Funds Of \$1,809 To Eliminate A Deficit In Her Official Fee Account As Of December 31, 2004

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
SUPPORTING SCHEDULE:	
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS	8
COMMENTS AND RECOMMENDATIONS	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



The Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of McCreary County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

The Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2006, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Clerk Should Pay Deed Transfer Taxes Quarterly
- The Clerk Should Pay Occupational License Tax Quarterly
- Time Sheets Were Not Properly Kept For Employees Of The Clerk's Office
- The Clerk Should Deposit Personal Funds Of \$1,809 To Eliminate A Deficit In Her Official Fee Account As Of December 31, 2004

This report is intended solely for the information and use of the County Clerk and Fiscal Court of McCreary County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas R. Wise & Company PSC". The signature is written in a cursive, flowing style.

Douglas R. Wise & Company, PSC

Audit fieldwork completed -
January 31, 2006

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services	\$	7,611
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Fiscal Court		6,698
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	367,122
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Usage Tax		544,797
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Tangible Personal Property Tax		661,694
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Lien Fees		4,130
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Other-

Fish and Game		5,330
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Marriage		7,245
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Occupational		590
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Deed Transfer Tax		18,793
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Delinquent Tax	148,958	1,758,659
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		11,684
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Real Estate Mortgages		17,029
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Chattel Mortgages and Financing Statements		65,974
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Powers of Attorney		1,078
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Bail Bonds		2,352
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All Other Recordings		17,488
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Charges for Other Services-

Copywork	7,335	122,940
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Other:

Miscellaneous		6,322
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Interest Earned		759
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Total Revenues	\$	1,902,989
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The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 277,884

Usage Tax 530,317

Tangible Personal Property Tax 259,150

Licenses, Taxes, and Fees-

Fish and Game 5,185

Delinquent Tax 52,952

Legal Process Tax 16,959 \$ 1,142,447

Payments to Fiscal Court:

Tangible Personal Property Tax 106,584

Delinquent Tax 6,809

Deed Transfer Tax 17,858

Occupational Licenses 519

Miscellaneous 39 131,809

Payments to Other Districts:

Tangible Personal Property Tax 269,440

Delinquent Tax 60,294 329,734

Payments to Sheriff

430

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 139,105

Employee Benefits-

Employer's Share Social Security 15,181

Employer's Share Retirement 14,633

Employer's Paid Health Insurance 22,780

Contracted Services-

Maintenance and Repairs 2,547

Advertising 434

Printing and Binding 2,647

Materials and Supplies-

Office Supplies 8,315

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
 JO KIDD, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$	76
Bond		131
Dues		475
Refunds		514
Telephone		2,816
IRS Penalty		1,809
Miscellaneous		485

Capital Outlay-

Office Equipment		<u>7,620</u>	\$	219,568
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Debt Service:

Lease Purchases		<u>3,195</u>
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Total Expenditures \$ 1,827,183

Less: Disallowed Expenditure(s)

IRS Penalty 1,809

Total Allowable Expenditures 1,825,374

Net Revenues \$ 77,615

Less: Statutory Maximum 64,953

Excess Fees \$ 12,662

Less: Expense Allowance 3,600

Excess Fees Due County for 2004 \$ 9,062

Payments to Fiscal Court - March 7, 2005 8,000

Balance Due Fiscal Court at Completion of Audit \$ 1,062

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the County Clerk's agent in the County Clerk's name.

Note 4. Lease

The office of the County Clerk was committed to a lease agreement with Xerox for a copy machine. The agreement requires a monthly payment of \$228 for 48 months to be completed on January 1, 2006. The total balance of the agreement was \$2,050 as of December 31, 2004.

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2004

Assets

Cash in Bank	\$ 93,126
Deposits in Transit	14,175
Receivables	<u>11,150</u>
 Total Assets	 <u>\$ 118,451</u>

Liabilities

Paid Obligations-

Outstanding Checks \$0

State Treasurer-

Motor Vehicle Licenses 9,786

Usage Tax 1,042

Tangible Personal Property Tax 19,934

Legal Process Tax 1,636

Delinquent Tax 6,894

McCreary County Fiscal Court-

Tangible Personal Property Tax 8,421

Delinquent Tax 1,155

Deed Transfer Tax 12,975

Occupational Licenses 908

Excess Fees - 2004 8,000

Payments To Other Districts-

Tangible Personal Property Tax 21,273

Delinquent Tax 3,926

Payroll 10,722

Payroll Taxes & Benefits 10,664

Telephone 190

Total Paid Obligations \$ 117,526

Unpaid Obligations:

McCreary County Fiscal Court-

Excess Fees - 2004 \$ 1,062

Withholdings 1,672

Total Unpaid Obligations \$ 2,734

Total Liabilities \$ 120,260

Total Fund Deficit as of December 31, 2004 \$ (1,809)

COMMENTS AND RECOMMENDATIONS

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Clerk Should Pay Deed Transfer Taxes Quarterly

The Clerk did not pay deed transfer taxes to the Fiscal Court on a timely basis. The first quarter remittance was made on June 21, 2004 and the second, third and fourth quarter remittance of deed transfer taxes was on December 31, 2004. KRS 142.050(4) requires the County Clerk to collect the tax and “retain five percent (5%) as [her] fee for collection and remit the balance every three (3) months to the county treasurer . . .” We recommend the Clerk pay deed transfer taxes for each quarter in the month after the close of each quarter.

County Clerk’s Response: This has been corrected.

The Clerk Should Pay Occupational License Tax Quarterly

The Clerk did not pay occupational license tax to the Fiscal Court on a timely basis. The first quarter remittance was made on June 21, 2004 and the second and third quarter remittance of occupational license tax was on December 31, 2004. We recommend the Clerk pay occupational license tax for each quarter in the month after the close of each quarter.

County Clerk’s Response: I have corrected the problem.

Time Sheets Were Not Properly Kept For Employees Of The Clerk’s Office

During our testing of payroll, we discovered that time sheets were not being properly kept by the Clerk’s office in accordance with KRS 337.320. KRS 337.320 requires that every employer shall keep the hours worked each day and each week by each employee. The time sheets were kept by the Clerk’s office were signed by the employees, but did not state the hours worked each day as required by KRS 337.320. The failure to keep proper time sheets on all employees of the clerk’s office is a weakness in the internal control structure over the payroll that is in place to help ensure that payroll is proper. We recommend that the McCreary County Clerk’s Office keep proper payroll time sheets on all employees as required by KRS 337.

County Clerk’s Response: We had signed time sheets, I just did not breakdown the hours.

The Clerk Should Deposit Personal Funds Of \$1,809 To Eliminate A Deficit In Her Official Fee Account As Of December 31, 2004

The Clerk is responsible for a \$1,809 deficit in her official bank account as of December 31, 2004. The deficit is the result of \$1,809 disallowed for the payment of IRS penalties. In Funk vs. Milliken, 317 S.W.2d 499 (KY. 1958), Kentucky’s highest court reaffirmed the rule that county fee officials’ expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses. We recommend the Clerk deposit personal funds into the 2004 Clerk Fee account. Subsequent to December 31, 2004, the Clerk did deposit personal funds into the 2004 Clerk Fee account on February 1, 2006.

County Clerk’s Response: I have personally from my check, paid this amount.

MCCREARY COUNTY
JO KIDD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None

PRIOR YEAR:

The Clerk Should Pay Deed Transfer Taxes Quarterly

This has been a recurring comment that was not corrected in the current year and is included in the current year audit.

The Clerk Should Cause Fiscal Court To Set A Maximum Amount For Deputies' Salaries

This was corrected in the current year.

The Clerk's Settlement Should Be Approved By The Fiscal Court In Compliance With KRS 64.152

This was corrected in the current year.

The Clerk Did Not Make Daily Deposits

This was corrected in the current year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Jo Kidd, McCreary County Clerk
Members of the McCreary County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCreary County Clerk for the year ended December 31, 2004, and have issued our report thereon dated January 31, 2006. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCreary County Clerk internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCreary County Clerk's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Clerk Should Pay Deed Transfer Taxes Quarterly
- The Clerk Should Pay Occupational License Tax Quarterly
- Time Sheets Were Not Properly Kept For Employees Of The Clerk's Office
- The Clerk Should Deposit Personal Funds Of \$1,809 To Eliminate A Deficit In Her Official Fee Account As Of December 31, 2004

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Douglas R. Wise & Company PSC". The signature is written in a cursive, flowing style.

Douglas R. Wise & Company, PSC

Audit fieldwork completed -
January 31, 2006

